



BUDGET COMMITTEE



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**Senator Gregg's Senate Floor Statement on
Motion to Instruct Conferees of the FY09 Budget Resolution Conference,
Prohibiting a Massive Tax Increase
May 15, 2008
(unofficial transcript)**

This motion to instruct is necessary because the budget as it left the Senate and represented here and has been agreed to between the House and Senate Democratic leadership and membership, with no Republican input other than the courtesy of telling us what they've agreed to, has in it the largest tax increase in the history of the world. Not just the history of the United States.

It's a \$1.2 trillion tax increase. It means that all Americans taxes will go up significantly as a result of this tax increase. 7.8 million people today who don't pay taxes will find that they are paying taxes. These are low- and moderate-income Americans who are not liable to pay taxes because their income has them in a level where there is no tax event.

But under this bill, which assumes the termination of the tax policies that were put in place in 1981 and 1982, those 7.8 million people will be returned to the tax rolls and will have to pay taxes.

Families of four earning \$50,000 -- a husband, a wife and two children -- in 2011 under this bill would see their taxes go up \$2,300. A single mom raising two kids, which is the toughest job in America, in my opinion, earning \$30,000 a year, that mother would see her taxes go up by \$1,100. That's a lot of food, a lot of clothing and a better lifestyle that will be lost to that family. A family of four making \$110,000 -- which would be, for example, a father who was teaching and a mother who was a police officer, one making \$50,000, one making \$60,000 -- that family with two children would see their taxes go up \$4,300 under this bill.

Small businesses, which are defined by the Democratic Party as the rich -- and, in fact, right now in the House of Representatives they're debating a bill which they claim taxes the rich, which it turns out are actually small businesses who file as individuals. 75% of all individual returns with incomes above \$300,000 include business income. 83% of all individual returns with incomes above \$1 million include business income. Small businesses pay 54 percent of all individual income taxes.

Those small businesses, 27 million in total, will see their tax bill go up by \$4,100. That could easily put a lot of those small businesses out of business, that type of a tax bill. A lot of these people work at the margin. Even though they may have high income, they're still spending a lot of that in order to maintain their business.

Elderly couples with incomes of \$40,000 are also impacted. If the Democratic budget goes forward, an elderly taxpayer, someone over 65, will see their taxes go up \$2,200. That's a lot of money for somebody who's probably on a fixed income, and doesn't have too many ways to increase their income, and is trying to make fixed costs, which also can't be reduced. A \$2,200 tax bill in 2011 is a pretty stiff bill to pay so that the party in power, the Democratic Party, can spend their money on some program that they deem to be more appropriate than allowing that individual to keep their money in their pocket. Eighteen million seniors will see taxes go up under this bill as the current tax policies are repealed and taxes are increased.

You know, there's this argument made on the other side of the aisle, 'well, we're not going to do that; we're going to collect this money from uncollected taxes.' That argument has no viability any longer. They made that argument last year, and the amount of money which was collected from uncollected taxes went up a minuscule amount. So that argument has no credibility.

There's an argument made, primarily by Senator Obama in his campaign for the presidency, that all these new programs and all these costs will be paid for by taxing the wealthiest Americans, only the wealthiest Americans. That the other tax breaks will be left in place. Well, this budget doesn't assume that. This budget doesn't assume that at all.

This budget assumes the full repeal of all the tax rates as they were put in place in 2001 and 2003. In addition, it assumes the full repeal of the capital gains rate, and full repeal of the dividend rate. Which, by the way, the capital gains and dividend rates are paid disproportionately by senior citizens. They're the ones who sell their homes and end up with capital gains rates. They're the ones that have fixed incomes, usually that are tied to dividends from their pensions.

So that argument that this proposal is just going to tax the wealthiest of Americans doesn't fly on the basis of the language of the Democratic budget. The Democratic budget says that they are going to repeal and raise by \$1.2 trillion those taxes. Taxes which all Americans will have to pay. Senator Obama says if he just taxes the wealthy, he can pay for all his new spending programs.

Well, his new spending programs total up to well over \$300 billion a year. He's proposed over 185 new programs. If you score just 143 of those programs he's proposing, his new or additional programs, it totals \$300 billion in new spending. That's on top of the new spending that's already in this bill. This bill radically expands spending, well over \$200 billion in new discretionary spending over the five-year period of this bill. And, of

course, you put the Obama spend-o-rama on top of that and you're up another \$300 billion.

And all of this is going to be paid for, allegedly, by just taxing the wealthy. Well, you've got to look at the language of the bill. That's not the way it's going to be paid for. As I just outlined, it's going to be paid for by taxing working individuals who run small businesses. In fact, if you took Senator Obama on face value, he is saying he's going to raise all the taxes just on the wealthy to pay for the \$300 billion in new spending and the \$200 billion if this bill -- an annual number, by the way -- the maximum amount, if you return the top rate in America back to the rate during the Clinton years which is what has been proposed by Senator Obama, the maximum amount that generates annually is \$25 billion.

But as a practical matter we will not get that much. These are wealthy people and they understand how to hire tax accountants when taxes are owed disproportionately. The great advantage we have from the tax cuts -- put in place by President Bush and which caused this economy to expand and caused federal revenues to grow in the most aggressive way in our history -- was that the tax laws had reached fair levels.

Take, for example, the capital gains tax, which, under this bill, will be doubled. The capital gains tax today, because it is a reasonable rate, 15%, is generating huge increases in federal revenues. In fact, CBO estimated when the capital gains rate went in at 15% it would generate about \$100 billion less than what it has generated over the last three years. Why did we obtain an additional \$100 billion in tax revenue as a result of having a lower capital gains rate?

For two reasons: one, because the capital gains rate was fair so people were investing in activity that was taxable and they weren't trying to avoid taxes by investing in nontaxable activity; and, two, because when you set a fair capital gains rate, what you do is incentivize people to go out, recognize their capital gains -- in other words, sell the assets which they have obtained gain in -- and take that new money that they've gotten and reinvest it in some other activity which also generates a capital gains.

Instead of having the gains locked down and having assets held because people don't want to pay taxes and the assets may be nonproductive assets, thus not having productive use of the dollars, a reasonable capital gains rate, which is what we now have in this country, causes people to go out and invest and act in the most efficient way with the money that they have.

As a result, not only do they generate more taxes to the federal government -- \$100 billion more than estimated -- but they also, at the same time, create more jobs because those dollars are used more efficiently -- there is more entrepreneurship and more people willing to take the risk to create a job because they know they will have a chance to get an adequate return and their efforts will not be taxed away.

But this bill rejects all of that. This budget rejects that whole concept. It says, 'let's go back to the period where we just tax people at extremely high rates.' Why? Why do they tax people at, extremely high rates? To reduce the deficit? No, the deficit goes up, dramatically. To reduce the national debt? No, the national debt goes up dramatically under the bill. The reason they want your tax dollars is because they want to spend your tax dollars.

There is a genuine philosophy on the other side of the aisle that says they know how to spend your money better than you do. You, the working American, you the small businessman or woman, you, the single mother -- they know better how to spend your money than you know how to spend your money. Thus, they want to raise your taxes in order to reprogram it into some sort of program that they deem to be of a better social purpose in allowing you, the person who earned that income, to keep your money in your pocket so you can make decisions that benefit you and your family with those dollars.

That's the philosophical difference that divides us and cannot be shown in a more stark way than in this budget, which left the Senate and which will be conferenced with the House version. Because this budget repealed almost all the conditions of the constructive, pro-growth tax policy oriented in the President's proposals of 2001 and 2003. And as a result, it drives this massive increase and the tax burden on the American people. This is not a tax on the wealthy, but a tax on the middle-class. Middle-class America will have to pay for the costs of the \$1.2 trillion.

To review the numbers, 7.8 million people who do not pay taxes today will pay them under this bill. 27 million people who run small businesses will see their taxes go up by \$4,100. 43 million working Americans who have children will see their taxes go up by \$2,300. Senior citizens, 18 million senior citizens, will see their taxes go up by \$2,200.

Obviously, we have a deep philosophical difference with the Majority on this point. That's why we're suggesting an instruction which says that we should not proceed down the path of having the world's largest tax increase. Let's at least tell our conferees, 'Don't do that to the American people. Keep the tax laws at a level that is fair and responsible.'

By 'responsible,' I mean the tax laws, as they presently are structured today, are returning more money to the federal government from our income taxes than we have ever had in our history. Even as a percentage of the Gross National Product, they are returning more revenue to the federal government than has been the historical average -- 18.7% of gross national product today is collected in tax revenues. Historically it was only 18.2%. So the tax laws have in the reduced federal revenue. They have actually increased federal revenue, as I pointed out when I discussed the capital gains rate.

We should not be putting in place a tax burden on working Americans which is going to counter the idea of producing jobs, creating economic incentives and allowing people to keep in their money which they have earned and which they know better how to spend than we as a government know how to spend.

So, Madam President, I reserve the balance of my time and I look forward to a continuing discussion of this as we proceed through the afternoon.

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